BUDGET COMMITTEE
Judd Gregg, Ranking Member
http://budget.senate.gov/republican
Contact: Betsy Holahan (202)224-6011
Emma Post (202)224-2574

A Closer Look at the FAA Extension Bill: Should Taxpayers Bail Out the Highway Trust Fund?
A Budget Perspective

General Background:

- The authority to collect and spend Federal Aviation Administration (FAA) aviation excise taxes will expire on June 30, 2008.
- Democratic Commerce, Science, Transportation Committee (CST) staff circulated a draft bill extending the taxing and spending authority to September 30, 2008, while Republican CST staff prefers to extend the taxes into 2009.
- However, the real controversy is whether, within that extension bill, the U.S. Treasury General Fund (GF) should "bail out" the Highway Trust Fund (HTF). (The General Fund is where federal taxes not earmarked for specific purposes are deposited.)

The Issue:

- **Highway Trust Fund Shortfall**
  - ✓ Both the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) estimate that the HTF will experience a "shortfall" in FY09 before the current highway authorization bill expires at the end of FY09 (meaning that HTF's balances are exhausted and planned spending exceeds collected taxes). CBO's most recent projection of the FY09 HTF shortfall is $1.4 billion; its next estimate in August should show an even larger shortfall since Americans are purchasing less fuel and therefore are depositing less gas taxes into the HTF.

- **Finance Committee's Solution**
  - ✓ To temporarily patch this shortfall, the Senate Finance Committee wants the next FAA extension bill to include a provision that has the effect of transferring $8 billion from the GF to the HTF.

- **Budgetary Impact of Transfer**
  - ✓ Patching the HTF with a transfer digs a hole into the GF. Since the transfer is from one government account to another, it by itself would not immediately increase budget authority or outlays, so CBO scores no direct spending effect from this provision. (As a result, there is no budget act point of order that could be raised against this provision.) <u>But ultimately, the transfer would allow outlays, and therefore the deficit, to be higher than would otherwise occur if the transfer never occurred.</u>
  - ✓ This is the exact problem and debate that occurred when Congress considered SAFETEA-LU in 2005. The Finance Committee admitted that GF transfers made to the HTF would increase highway spending and increase the deficit, so it promised to offset those increases with tax increases. <u>But the offsets were never enacted.</u>
  - ✓ So again, as in 2005, the proposed transfer in 2008 destroys the link between highway spending and gas tax revenue. In other words, the highway program is supposed to be paid by highway users through excise taxes on gasoline, tires, etc. <u>A transfer from the GF shifts the cost of the program from highway users to the general population. It allows for undisciplined, unconstrained spending and defeats the purpose of the trust fund concept.</u>